



Director of  
Central  
Intelligence

**Top Secret**

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# **National Intelligence Daily (Cable)**

**25 January 1982**

**Top Secret**

CO NIDC 82-020C

25 January 1982

Copy **419**

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POLAND: Parliamentary Meeting

*Premier Jaruzelski's speech to parliament today probably will be moderate in tone but not contain any significant concessions. Pravda, meanwhile, has been notably pessimistic on conditions in Poland.*

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There has been speculation that Jaruzelski today will announce a further lifting of some of the martial law restrictions, but almost no information on the content of his program is available. A member of parliament from one of the minor political parties told [redacted] that party liberals had prepared the program and that it would be approved unanimously, in contrast to the protracted parliamentary debates before the imposition of martial law. Deputy Premier Rakowski, one of the alleged liberals who helped formulate Jaruzelski's program, recently indicated that the future of trade unions is still an "open question."

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Comment: Jaruzelski had delayed announcing the government's program apparently because of conflicting advice and his hope to reach some sort of accommodation with Solidarity leader Walesa. The program probably will be couched in conciliatory terms but will not tie the regime's hands on any key issue, including release of detainees, an end to martial law, or a resumption of a real dialogue with the Church and Solidarity.

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Rakowski's comments indicate that six weeks after the introduction of martial law the regime still is uncertain as to its course of action. His emphasis, however, that in the future unions will deal strictly with economic issues and that the state must be strong leaves little room for autonomous activity by social organizations.

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Soviet Commentary

*Pravda* on Saturday reported that Polish authorities face a complex of problems despite recent increases in some production figures. The commentary notes the "moral weariness and disorientation" of many Poles, the political dangers in raising prices, and problems within the Polish Communist Party.

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Comment: The article in *Pravda* suggests that Moscow still considers the outcome of the crisis to be in doubt. While implying a possible need for some political accommodation to Polish conditions, the article also appears intended to warn the Soviet public both that further economic concessions to Poland could be necessary and that a breakdown of order might yet require Soviet military intervention.

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NORTH KOREA - SOUTH KOREA: Reaction to Chun Proposal

In a broadcast on Saturday by a North Korean based clandestine radio, P'yongyang condemned South Korean President Chun's initiative last Friday for reunification talks. P'yongyang characterized the initiative as "gibberish" and attacked Chun for suppressing dissent and for encouraging the continued presence of US troops in South Korea to shore up his administration. [REDACTED]

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Comment: The North Korean response was unusually quick, and although the radio has no official status, it frequently foreshadows the propaganda line adopted in more authoritative commentary by P'yongyang. [REDACTED]

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ARAB STATES: Summit Postponed

The emergency meeting of Arab League Foreign Ministers, originally scheduled for yesterday, has been postponed until 7 February. The Syrians said the delay was needed so that Arab Foreign Ministers could participate in an emergency session of the UN General Assembly they hope to arrange this week to discuss the Golan Heights annexation. [REDACTED]

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Comment: Inter-Arab squabbling may have been at least partially responsible for the postponement of the meetings. Jordanian-Syrian tensions flared late last week over alleged border violations, and the Syrians may have feared a display of Arab disunity that would hamper the presentation of their case to the UN. [REDACTED]

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NAMIBIA: Frontline Meeting Results

//The Frontline States and the South-West Africa People's Organization, in a joint statement on Saturday responding to the Western Contact Group's proposed constitutional principles for an independent Namibia, rejected the system proposed for selecting delegates to the constitutional assembly. They prefer selection by proportional representation instead of having half the constitutional assembly be filled by proportional representation and the other half by contests in single-representative constituencies. They also expressed reservations about provisions that would compel the assembly to draft a constitution fixing the relationships among the branches and levels of government that would limit the power of the dominant party of an independent Namibia--presumably SWAPO.//

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Comment: //Although the Frontline spokesman, Tanzanian Foreign Minister Salim, was optimistic in his observation that many of the principles had not been contested, the objections the group did make may delay movement to the next phase of negotiations.//

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IRAQ: Foreign Aid Reductions

//Foreign Minister Hammadi has announced that Iraq would temporarily reduce its foreign aid assistance to less developed countries but that the cutbacks do not signal any adverse change in Baghdad's political relations. Iraqi aid to such countries in 1980 amounted to \$885 million.//

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Comment: There are no indications as to how much of a reduction the Iraqis have in mind. Reduced oil export earnings and increased foreign borrowing because of the war have forced them to choose between foreign aid programs and their own economic development.

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SPECIAL ANALYSES

EGYPT: Economic Concerns

*President Mubarak has singled out economic difficulties as his top domestic priority. His ability to deal with these problems will be a major determinant in the staying power of his Government over the longer term. Mubarak will expect the US to support the economic changes he devises in the months ahead, and the US response will be viewed in Cairo as a measure of Washington's commitment to Egypt and its new leader.*

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The Egyptian economic team visiting Washington this week in advance of Mubarak's arrival on 3 February will be seeking greater flexibility in the US assistance program and faster aid disbursements. It also would like to make US projects in Egypt more visible and ensure continued or increased US aid levels.

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The Egyptians probably will avoid specific discussions about economic reforms being planned by Cairo. These changes have not yet been fully developed and are unlikely to be in final form until the new budget is presented to the People's Assembly this spring.

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Mubarak inherited from Sadat an economy that has undergone rapid growth and significant changes since the mid-1970s. Real growth of 8 to 9 percent in recent years was spurred by large inflows of foreign assistance, sharply rising foreign earnings, and economic policies more conducive to private-sector activity. Egypt faces multiple challenges, however, and must sustain high levels of economic activity, deal with complaints stemming from economic policies, and tackle rapid population growth and other longer term issues.

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Egypt faces a weakening foreign payments outlook as imports continue to rise and key sources of foreign earnings are beginning to level off. The government has started discussions for Eurodollar loans totaling as much

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as \$600 million and has borrowed \$250 million in foreign currencies from banks in Egypt. A foreign payments crisis could complicate relations with the US, Egypt's largest aid donor, and would give additional impetus to Egyptian efforts to restore relations with other Arab states in hopes of restarting aid flows. [ ]

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Mubarak has sought the advice of a wide range of economic experts, reassured foreign investors, and installed new ministers in several key cabinet economic posts. His emphasis on economic concerns has been well received by the public. [ ]

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Most Egyptians are primarily concerned about housing shortages, lack of job opportunities, rising prices, and income disparities. The housing shortage, for example, hits urban Egyptians at all income levels. Mubarak has singled out this problem as one of his major concerns, and the government is likely to increase investment for housing and related utilities in the new Five-Year Plan to be announced this spring. [ ]

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Although open unemployment is minimal, there is widespread underemployment in government jobs. At the same time, there are shortages of skilled workers because most youths do not seek a technical education. Government officials are increasingly concerned that frustrated young Egyptians will be exploited by political extremists and are likely to expand job training programs in an effort to deal with this problem. [ ]

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The system of extensive government subsidies that is used to protect consumers from inflation and thus reduce the potential for public unrest is a major drain on the economy. The cost of the subsidies is one-third of noninvestment government expenditures in the current budget. Mubarak has assured the poor that their subsidies will be continued. [ ]

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Most Egyptians believe that only a small segment of society has benefited from the country's improved economic performance and that the social equity achieved during the Nasir era eroded under President Sadat. To address

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these complaints, Mubarak is likely to limit luxury imports and channel private investment to projects producing goods for a wider segment of the population. [REDACTED]

The second set of economic challenges facing Egypt involve sustaining economic growth and strengthening foreign payments. These problems frequently have an impact on consumer issues, but there is little public pressure for reforms. The ability of Mubarak and his advisers to act will depend on their success in building public support for reforms. [REDACTED]

Rapid population growth of close to 3 percent a year is adding another million Egyptians each year to the narrow confines of the Nile Valley and Delta. Sadat was never willing to challenge Egyptian and Islamic traditions that encourage large families, and Mubarak appears similarly unwilling to face the problem. [REDACTED]

Dealing with inflationary pressures will require stricter fiscal discipline than in the past. The 1981/82 budget deficit is estimated to be more than double the previous year. Although an effort this spring to limit spending and raise taxes could reduce inflationary pressures, it would be a major political undertaking entailing substantial risks. [REDACTED]

Low domestic energy prices have led to rapidly rising consumption and delayed the difficult transition to a more realistic energy price structure. Without new price increases to dampen demand as well as new oil discoveries, Egypt could face declining oil export revenues in the second half of the 1980s that would seriously threaten its foreign payments and growth prospects. [REDACTED]

Public sector industries, with few exceptions, are not efficient. Mubarak, who stresses an ethic of hard work and discipline, is likely to take a hard look at these firms. He probably will not risk any showdowns with public sector workers and management any time soon, however, because they constitute a powerful political lobby. [REDACTED]

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IRAN: A More Activist Policy

*//The Iranian regime, under siege six months has been gradually consolidating its control. Its stronger position at home and on the battlefield will encourage the government to play an increasingly activist role in the Persian Gulf, challenging moderate, pro-Western regimes there. At the same time, some leaders who replaced those assassinated last summer appear to advocate closer relations with the USSR.//*

*//The government has held together on the strength of Ayatollah Khomeini's continuing appeal, its campaign of repression, and the support of the lower classes who see no acceptable alternative. Its control is far from complete, but the clerics are making effective use of the religious structure that reaches to the village level.//*

*//Mosques are used as propaganda centers and food distribution points. In addition, attendance is mandatory at Friday prayer sermons, which have become a forum for political indoctrination.//*

*//The omnipresent Revolutionary Guards provide an armed presence by the government and enforce the clerics' mandates in nearly every town and village. Prompted by the war with Iraq and distrust of the regular Army, the government has greatly expanded the Guards, improved their training, and given inconsistent heavier equipment--including tanks.//*

*//The Revolutionary Guards, including the Popular Militia, now are larger in number than the regular Army. The regime ultimately intends it to be the nucleus of a new "Revolutionary Army."//*

*//Within the Army the regulars are unlikely to pose much of a threat to the government. Officers loyal to the regime have replace key prerevolutionary commanders,*

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//Despite widespread suspicion of the USSR, the government seems increasingly willing to turn to Moscow and its allies. The apparent softening is dictated to some extent by economic necessity, [redacted]

//Since Khamenei took office last September the two countries have exchanged visits of low-level economic and cultural delegations. Iran also has continued to seek Soviet help in economic projects.// [redacted]

//There now are some 2,000 Soviets advisers in Iran--about the same number as under the Shah--and the USSR continues to provide arms. [redacted] recently said that there were 200 Soviet military advisers in the country. The presence of Soviet military advisers in Iran is plausible, but the figure of 200 appears to be high.// [redacted]

//Should the clerics continue to consolidate control and escape crippling factionalism, the danger to the security of Iran's Gulf neighbors will grow. Iranian leaders continue to see their revolution as having wider validity.// [redacted]

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//Iran would concentrate on its Persian Gulf neighbors because they have supported Iraq, are pro-West and therefore "corrupt," and have disgruntled Shia communities Tehran thinks it can mobilize. The regime also may choose to support Islamic extremists in more distant pro-Western countries such as Egypt.//

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//The government will profess a policy of good relations with these states, as an Iranian delegation in the United Arab Emirates is currently doing. At the same time, it will seek to intimidate and subvert them. Tehran already sponsors guerrilla training centers for Muslim dissidents.//

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//Tehran also is likely to concentrate on Saudi Arabia because of its close ties to the US and because it has a substantial Shia community living largely in the oil-producing Eastern Province.//

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//The Gulf states look to Iraq to restrain Iran, but they are not confident of President Saddam Hussein's staying power if the Iraqis suffer more defeats. While continuing to support Baghdad, they are exploring other options, especially mutual security cooperation. Their insecurity will probably push them closer to the US.//

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//The struggle for power in Iran will intensify after Khomeini's departure and may be more open to Soviet than Western exploitation. US efforts to protect the Gulf states and coordinate security measures for them, coupled with the refusal to sell arms to Iran, will continue to be regarded in Tehran as aggressive. Leaders arguing for closer ties with the USSR will play on anti-US sentiments.//

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Approved For Release 2007/08/26 : CIA-RDP84T00301R000100010078-1

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